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STATE FOR NEA/IPA GOLDBERGER AND FRELICH; EEB FOR ENGLE AND
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LOUSTAUNAU AND NAOMI WIEGLER

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TAGS: [ECON](#) [EFIN](#) [IS](#) [PREL](#) [TBIO](#) [EINV](#)
SUBJECT: PROSPECTS FOR ENHANCED HIGH-TECH DIALOGUE WITH
ISRAEL

REF: A. REF A: 2009 TEL AVIV 653
[1](#)B. REF B: TEL AVIV 194

Classified By: DCM Luis Moreno for reasons 1.4 b and d.

[1](#)1. (C) SUMMARY: The expansion of bilateral high-tech cooperation has emerged as a key priority for the Government of Israel in recent bilateral discussions and meetings of the Joint Economic Development Group (JEDG). Post believes that securing additional funding for the existing binational foundations is an important USG as well as GoI goal, and would, in large part, meet GoI objectives for the increased cooperation. Addressing the desire for greater strategic dialogue on high-tech will require the involvement of both private sectors and may be better addressed via existing bilateral institutions or by non-governmental actors of which Israel and the U.S. are members. Post foresees the continued use the JEDG to address this issue in the short-term, and advocates formation of a time-limited working group at the next JEDG meeting to develop a final action plan and transfer of high-tech dialogue to an agreed-upon third party. Thought should be given to which agency of the USG should be the focal point for interface with the GoI on the high-tech dialogue. End summary.

The Binational Foundations

[1](#)2. (SBU) The Appendix 10 of Annex II to the Loan Guarantee Commitment Agreement signed in June 2009 states "the U.S. and Israel agree to explore ways to expand their partnership in energy and technology R&D activities under the auspices of the Binational Industrial Research and Development Foundation (BIRD), the Binational Science Foundation (BSF) and the Binational Agricultural Research and Development Foundation (BARD)." The launch of BIRD Energy in May 2009 using matching funds from the U.S. Department of Energy and the Israeli Ministry of National Infrastructure was one concrete step in fulfilling this goal. The GoI recently announced its intention to increase funding to the endowments of BIRD, BSF and BARD by allocating \$55 million among the three. The GoI funds, however, must be matched by the USG in order to be received by foundations -- they are currently held in a GoI non-interest-bearing account controlled by the Accountant General. The GoI agreement with BIRD regarding the new funding notes that matching USG funds must be offered/deposited by September 30, 2010 or the GoI funds revert back to the government.

[1](#)3. (C) It is clear that matching USG funds will not be available to support the foundations by September 2010, and this information has been shared with BIRD Executive Director Dr. Eitan Yudilevich. However, this has not been expressed

officially to the GoI. Director General of the Ministry of Finance, Haim Shani, recently wrote to Acting Treasury Assistant Secretary Andy Baukol (letter forwarded to NEA/IPA via e-mail) underscoring the GoI's allocation of funding for the foundations as recognition of their importance in advancing the economic growth engine of innovation. Post strongly recommends pursuit of matching funds in FY2011 by whatever means Washington advises as most expedient. We expect that the GoI may begin lobbying the Hill for the funding, and suspect that the GoI will maintain their commitment after September 2010 if the USG signals its intent to request funding for FY2011. The U.S. has reaped numerable benefits from the work of the binational foundations and post believes it is in the U.S. interest to maintain their viability. The endowments of all three foundations have greatly diminished in real value due to inflation and currency devaluation in the intervening thirty years since their creation, yet they continue to do work that produces great return on investment. BIRD alone has generated \$8 billion in product sales from some 740 projects approved over the last 30 years. We note Treasury's stated preference to direct increased U.S. funding to BIRD toward proposals that include joint Israeli-Palestinian projects, such as the trilateral SPROUT initiative. However, increased endowments would not alter the scope or work plans of the foundations. If desired, additional funding could include language aiming to broaden the objectives of the institutions to permit operations in PA territories, but this would entail bilateral discussions with the GoI to alter the rules of the foundations.

Differing Ideas As To The Proper Government Role

14. (C) Prior to the December 2009 JEDG meeting, the GoI developed a white paper detailing their concept of establishing a framework for collaboration based on mutual benefit and reciprocity. While never officially presented, the paper lists several goals that have been discussed in meetings between GoI and USG officials at State and Treasury during the past six months, including promoting investment and joint ventures, expanding trade opportunities, supporting efforts to promote the technological capabilities of developing nations, and creating new employment. In meetings leading up to the December JEDG meeting, Ministry of Finance DG Haim Shani defined the following areas of cooperation, which he described as being of strategic importance to both the U.S. and Israel: health care and education information technology (IT); alternative energy and other clean technologies including water; technology that would improve the regulation of the financial services industry; life science technology including biotech, pharmaceuticals, and medical devices; and homeland security technology. In discussions, GoI officials have often cited the need to maintain their competitive edge in the high-tech sector, signaling that the growing strength of countries like India and China causes some concern.

15. (C) The government has always had a strong role in Israel's high-tech sector. Roots in the military and establishment of the Chief Scientist program in particular have generated a culture that prioritizes government direction and funding, which then hands-off to the private sector the job of innovating and commercializing new technologies (see ref A). While such integral government involvement does not resonate in the U.S., the GoI certainly understands that there is USG money available to finance such goals as health care reform and homeland security improvements, and the GoI aims to benefit. In fact, there was a completely inaccurate press announcement following the recent visit of Homeland Security Deputy Secretary Lutte, noting that the U.S. and Israel had established a joint foundation to fund research and development of counterterrorism methods. Recognizing several of the priorities on the US national agenda as shared goals, the natural inclination is to leverage the interest and potential funding into projects that feature Israeli industry and

available human capital. In a recent press article, Chemi Peres, the Chairman of the Israel-America Chamber of Commerce and Industry (AmCham) and a well-known Israeli venture capitalist, recommended the creation of a binational foundation for innovation-based infrastructure projects, a "BIRD on steroids," and noted that such a foundation would require especially broad financing and collaboration by companies and governments.

16. (C) The U.S. delegation to the recent JEDG meeting spelled out to the Israelis the USG aversion to "picking winners" and emphasized that the proper government role in this initiative would need careful study (ref B). Both State and Treasury representatives noted the need to involve USDO; the role of Office of Science and Technology Policy (OSTP) should also be explored in this regard, as high-tech cuts across interests in Commerce, State, Defense, Energy, Treasury and other agencies. More importantly, the private sector should help in defining the scope of what greater high-tech collaboration should aim to achieve. EconCouns recently discussed the broad vision of enhanced S&T cooperation with a visiting U.S. Chamber of Commerce senior official who expressed interest in supporting the idea. Post recommends that non-governmental actors, such as the U.S. Chamber of Commerce, take the lead on mobilizing elements of the Israeli and U.S. private sector and academia to address common concerns that the two governments could usefully address to encourage a higher level of meaningful cooperation.

USISTC/F - An Underutilized Existing Mechanism

17. (C) The newest of the binational foundations, the U.S.-Israel Science and Technology Foundation (USISTF), was established in 1995 by the U.S.-Israel Science and Technology Commission (USISTC), formed in 1993 by then-Commerce Secretary Ron Brown to develop and implement binational strategies to enhance scientific and technological cooperation. Its broad mission seems to complement many of the goals proposed by the GoI for enhanced dialogue,

including reducing barriers, fostering growth in high-tech industries, and creating new employment. USISTC's focus areas also appear to mesh with those covered in the GoI's white paper -- information technology, biotechnology, and security technology. Econoffs met with USISTC's Israel representative, David Wapner, to discuss their mission, as well as their views of the GoI's objectives, and found that they share very similar interests. (Note: USISTC is housed and supported in Israel by the Office of the Chief Scientist at the Ministry of Industry Trade and Labor, MOITAL/OCS.) Post understands that USISTC wishes to re-energize its mission, and may be amenable to new proposals. However, questions remain as to USISTC's effectiveness and its future role.

18. (C) FCS colleagues at Post report that the Foundation started with \$7 million from both USG and GoI, and was originally housed in Washington at the USDOC's now defunct Technology Administration. The USG contribution has been spent; the GoI portion was placed in an interest-bearing account and now keeps the Commission afloat. USISTF was eventually transferred to USDOC's Bureau of Industry and Security (BIS) which recently declined to continue housing the Commission. Chief Scientist at the Ministry of Industry, Trade and Labor, Eli Oppor, noted at the December JEDG meeting that USISTF was "in search of a new home" and we understand that USISTF has been lobbying the Secretary of Commerce and Congress for assistance. While Oppor has been a strong supporter of USISTC/F, it is not clear if that support resonates throughout the GoI. Recent USISTF activities indicate that the USISTF is both underutilized and under-appreciated. Its recent publications -- a review of Israel's high-tech sector, a joint homeland security pilot study identifying best practices, and a strategy for the future of the Israeli economy and society in a global context

-- had low impact but were useful contributions.

19. (C) David Wapner shared with Econoffs a position paper he drafted on behalf of MOITAL/OCS concerning the renewal of the organization as a government to government program, identifying new objectives and fields of focus. While never formally presented, the paper includes several ideas that could be engaged on a limited scale in order to better assess the potential of a renewed USISTC. Post envisions USISTC/F as a mechanism to study priority sectors and provide policy recommendations to the governments and perhaps the other binational foundations. They might also prepare a study on the inclusion of Arab-Israeli minority in the high-tech sphere, as well as the promotion of further S&T collaboration with the Palestinians, perhaps evaluating previous pilot-projects. A reformed USISTF could better inform private sector actors of technology partnering opportunities in communications, healthcare IT, biotech and homeland security technology. USISTF could interface with the U.S. Chamber of Commerce, industry associations, or other private sector groups to help identify gaps in harmonization of standards and regulations with regard to emerging technologies. . EconCouns has already recommended the U.S. Chamber follow-up their stated interest with State (NEA and EEB) as well as local head of USISTC. Post suggests that these ideas be explored with the relevant organizations and the GoI, with the objective of providing a presentation or forming a working group at the next JEDG meeting to detail the possible revamping of the USISTC/F.
Cunningham